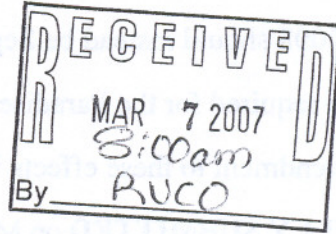


BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE



IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS PARADISE
VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY
FOR APPROVAL OF AN AGREEMENT
WITH THE PARADISE VALLEY COUNTRY
CLUB.

DOCKET NO. W-01303A-05-0910

**EXCEPTION OF
ARIZONA-AMERICAN WATER COMPANY**

Arizona-American Water Company ("Arizona-American" or the "Company") hereby
submits the following exception to the Recommended Opinion and Order included with the
March 1, 2007, Staff Report:

Exception: Arizona-American has reviewed the Staff Report and the attached
Recommended Opinion and Order. Arizona-American continues to support adjustment 3 in its
amended application, which retired three on-site pumps (300 hp, 150 hp, and 100 hp) installed in
1995. This adjustment was arrived at following discussions with all the parties. The basis for
the adjustment was that the pumps were no longer needed because of construction of the new
ACRM facilities.

Even though the effect of this adjustment is to reduce the amount of the ACRM Step 1
increase, Arizona-American believes that the adjustment is appropriate now and should not await
its next rate case.

Exception: In the ordering paragraph of the Recommended Opinion and Order, the reference to May 31, 2008 should instead be September 30, 2008 to coincide with the date a new rate case application is required for the Paradise Valley Water District in Decision No. 68858.

A proposed amendment to these effects is attached as Exhibit A to this Exception.

RESPECTFULLY SUBMITTED on March 5, 2007.

Craig A. Marks

Craig A. Marks
Craig A. Marks, PLC
3420 E. Shea Blvd, Ste. 200
Phoenix, Arizona 85028
(602) 953-5260
Craig.Marks@azbar.org
Attorney for Arizona-American Water Company

Original and 15 copies **filed**
on March 5, 2007, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing delivered
on March 5, 2007, to:

Hearing Division
Arizona Corporation Commission
1200 West Washington St.
Phoenix, Arizona 85007

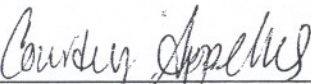
Maureen Scott
Senior Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington St.
Phoenix, Arizona 85007

Daniel Pozefsky
Counsel
Residential Utility Consumer Office
1110 West Washington Street
Suite 220
Phoenix, Arizona 85007

1 Copy of the foregoing **mailed**
2 on March 5, 2007, to:

3
4 Robert J. Metli
5 Snell & Wilmer LLP
6 One Arizona Center
7 400 E. Van Buren
8 Phoenix, Arizona 8500-20224
9 Attorneys for Paradise Valley Country Club

10
11
12
13 By:

14 
Courtney Appelhaus

SUGGESTED AMENDMENT NO. 1

Page 6, line 24.

Insert the word "Proposed" after "and" and before "Adjustments," so as to read:

C. Staff's Analysis and Proposed Adjustments to Company's Schedules

Page 7, line 11.

Delete current heading and replace with "**Discussion.**"

Beginning on Page 7, line 12 – Delete paragraphs 20, 21, and 22.

Insert new paragraphs 20, 21, and 22 as follows:

20. Staff concluded that the Company's Step-One ACRM filing for its Paradise Valley Water District, as adjusted, is complete and in accordance with Decision No. 68858.

21. Staff recommended that the Company file with the Commission an arsenic removal surcharge tariff consistent with either ACRM Schedule CSB-4 or CSB-8 as approved by the Commission.

22. We do agree with the Company and RUCO that it is appropriate to reduce the actual reported cost of the arsenic treatment plant by removing the net cost of three pumps. These pumps are no longer needed as a result of constructing the arsenic treatment plant and the associated plant should no longer be included in rate base. Therefore, Arizona-American's revised schedules should be accepted as filed.

Beginning on Page 8, line 17 – Delete Conclusion of Law Paragraph 5.

Insert new Conclusion of Law Paragraph 5:

5. The Company's revised application is reasonable and appropriate and should be approved. Approval of the Company's implementation of the arsenic cost recovery mechanism

is consistent with the Commission's authority under the Arizona Constitution, Arizona
ratemaking statutes, and applicable case law.

**Beginning on Page 8, line 26, through Page 9, line 3 – Delete the second and third Ordering
Paragraphs.**

Insert the following new Ordering Paragraphs:

IT IS FURTHER ORDERED that Arizona-Americans' recommended Plan A is
approved.

IT IS FURTHER ORDERED that the revised application by Arizona-American Paradise
Valley Water District for approval of an arsenic cost recovery mechanism surcharge tariff shall
implement the following rates:

	<u>Present Rates</u>	<u>Surcharge</u>	<u>Total</u>
Monthly Customer Charge (5/8-inch meter)	\$9.50	\$14.48	\$23.98
Commodity Charge			
Commodity Rate 0 to 25,000 gallons (per 1,000 gallons)	\$0.7600	\$0.4425	\$1.2025
Commodity Rate 25,001 to 80,000 gallons (per 1,000 gallons)	\$1.6500	\$0.4425	\$2.0925
Commodity Rate 80,001 gallons and over (per 1,000 gallons)	\$4.3300	\$0.4425	\$4.7725

Page 10, Line 2

Delete "May 31, 2008" and insert "September 30, 2008" so as to read:

IT IS FURTHER ORDERED that in the event that Arizona-American fails to file a new rate case
application for its Paradise Valley Water District by September 30, 2008, the Arsenic Cost
Recovery Mechanism surcharge then in place shall be automatically discontinued.